

Research Article

Microfinance Credit and Economic Growth in Nigeria: Assessing the Role of Microfinance Bank Lending in Promoting Economic Development

Ja'afar Garba Ya'u Gwarmai^{1*}, Sani Inusa Milala²

¹ Department: Micro-finance and Enterprise Development Federal Polytechnic Kabo, Polytechnic Street Gyarauji Quarters Kabo Town, Kabo Local Govt Kano State, Nigeria

² Department Real Estate and Facilities Management, Universiti Tun Hussein Onn Malaysia

***Related declarations are provided in the final section of this article*

ARTICLE INFORMATION

Received: 10 Aug 2026

Accepted: 25 Sep 2026

Published: 30 Sep 2026

Correspondence Author:

Ja'afar Garba Ya'u Gwarmai*

Copyright © 2026 The Author(s). The Authors retain copyright. Licensed under the Creative Commons Attribution 4.0 International License (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Abstract

Microfinance banking in Nigeria was established to extend credit to the economically excluded and stimulate grassroots development. Despite the sector's dramatic expansion, with credit rising from ₦42.8 billion in 2008 to ₦1.3 trillion in 2025, poverty and unemployment have persisted, raising serious doubts about whether microfinance credit actually promotes economic growth. This disconnect between policy intent and development outcomes constitutes the central problem of this study. The need for the study arises from unresolved contradictions in the existing literature, where some studies report positive growth effects of microfinance credit while others find insignificant or even negative effects, leaving the microfinance-growth nexus in Nigeria empirically unsettled. The study therefore aims to assess the effect of microfinance bank credit on economic growth in Nigeria over the period 2008–2025. The study adopts a quantitative design using annual secondary time-series data from the Central Bank of Nigeria, the IMF Financial Access Survey, and the World Bank. Economic growth is measured by real GDP growth, and microfinance bank credit is measured by loans and advances. The Autoregressive Distributed Lag bounds-testing approach is employed to examine short-run and long-run relationships, supported by unit root tests, diagnostic tests, and stability tests. The results show that microfinance bank credit has no statistically significant effect on economic growth in Nigeria. The ARDL bounds test F-statistic of 1.931 fell below the lower bound critical value of 4.04 at the 10% level, confirming the absence of a long-run relationship. The short-run coefficient was also insignificant ($p = 0.548$), and

the error correction term (-0.418) was only weakly significant ($p = 0.101$). The study concludes that microfinance bank credit, as currently deployed, does not drive economic growth in Nigeria. The expansion of credit has not translated into productive investment or measurable development gains. Policymakers must complement credit delivery with financial literacy, business development services, and monitoring mechanisms to ensure that microcredit finances productive activities rather than consumption.

Keywords: Micro economy; Credit development; Banking; Finance

INTRODUCTION

Microfinance has long been promoted as a development tool capable of extending credit to the economically excluded and stimulating growth from the grassroots (Raut, 2025). Since the Grameen Bank model demonstrated that small, collateral-free loans could reach the rural poor with high repayment rates, microfinance institutions (MFIs) have proliferated across developing economies (Bros et al., 2023). In Nigeria, microfinance banks (MFBs) were formally institutionalised to serve micro, small, and medium enterprises, low-income households, and rural entrepreneurs excluded from conventional banking (Nwoke & Chukwu, 2023). The sector has expanded substantially, though recent regulatory crackdowns have reduced the number of licensed institutions and raised concerns about the sustainability of grassroots credit delivery (Igue, 2025).

The theoretical case for microfinance as a growth catalyst rests on the finance-growth nexus, whereby improved access to financial services enhances capital accumulation, entrepreneurial activity, and household welfare (Chikwira et al., 2022). Empirical evidence from Nigeria, however, presents a more nuanced picture. Some studies report a positive relationship between microfinance activities and economic growth, particularly through savings mobilisation and investment (Odeyale & Ibrahim, 2024). Others find that microcredit alone has statistically insignificant effects on GDP, suggesting that lending without complementary factors may not translate into macroeconomic gains (Ideba et al., 2023). At the household level, microfinance has been associated with poverty reduction, women's empowerment, and improved livelihood outcomes, yet questions persist about over-indebtedness and the depth of outreach (Hasan et al., 2025; Alqatan et al., 2025).

In Nigeria, the microfinance sector faces structural constraints including weak capitalisation, governance deficits, and a regulatory environment that has recently tightened minimum capital requirements (Ozili et al., 2023). These pressures risk shrinking the very institutions charged with extending credit to the unbanked, potentially undermining financial inclusion objectives (Akinrinola & Folorunso, 2022). While the Central Bank of Nigeria has justified license revocations as necessary for stability, the immediate consequence is reduced access to credit for small businesses and rural borrowers who rely on MFBs as their only formal financial option

(Ogbeta et al., 2025). Given these tensions, a systematic assessment of whether MFB lending promotes economic development in Nigeria is both timely and policy-relevant (Yusuf et al., 2024). This article examines the relationship between microfinance credit and economic growth in Nigeria, evaluating the channels through which MFB activities influence development outcomes and the conditions under which such effects materialise (Otekunrin et al., 2022; Ananwude & Lateef, 2024).

Microfinance banking in Nigeria was established with the explicit mandate of extending credit to the economically excluded, stimulating entrepreneurial activity, and contributing to poverty reduction and economic development (Nwoke & Chukwu, 2023). The Microfinance Policy, Regulatory and Supervisory Framework of 2005 set ambitious targets, including increasing the share of microcredit in the economy from 0.9% to 20% by 2020 (Ananwude & Lateef, 2024). Despite these policy commitments and the proliferation of microfinance banks across the country, the empirical evidence regarding their actual contribution to economic development remains deeply contested (Odeyale & Ibrahim, 2024).

The central problem is that Nigeria's macroeconomic development indicators have not improved commensurately with the expansion of the microfinance sector (Ozili et al., 2023). Poverty rates continue to rise, unemployment remains persistently high, and access to credit for small and medium-scale enterprises remains severely constrained (Akinrinola & Folorunso, 2022). Recent evidence indicates that microfinance bank credit has grown substantially, yet real GDP growth has remained volatile and below potential (Ogbeta et al., 2025). This disconnect between the policy intent of microfinance and observable development outcomes constitutes the core research problem (Yusuf et al., 2024).

RESEARCH GAP

A critical review of the existing literature reveals three major gaps that this study seeks to address (Raut, 2025). First, contradictory empirical findings persist without adequate reconciliation (Chikwira et al., 2022). Odeyale and Ibrahim (2024) found that microfinance loan disbursements and the number of microfinance institutions had a positive and significant effect on Nigeria's GDP growth rate using the fully modified least squares approach. Ideba et al. (2023) similarly reported a positive and significant long-run effect of microfinance bank loans and advances on output performance using the dynamic ordinary least squares approach. However, Ananwude and Lateef (2024), employing ordinary least squares estimation over the period 1986–2022, found that microfinance bank loans, deposits, and investments had no significant effect on Nigeria's Human Development Index. Otekunrin et al. (2022) reported that microfinance bank activities had a positive but insignificant effect on per capita income in the short run. Chikwira et al. (2022) even found that microfinancing increased poverty in the long run in Zimbabwe, suggesting that the mere provision of credit may be counterproductive without complementary factors. These divergent results have not been systematically reconciled, leaving a fundamental question unanswered: under what conditions does microfinance credit promote development in Nigeria (Smolo, 2023).

Second, the mediating mechanisms between microfinance lending and economic growth remain undertheorised (Bros et al., 2023). The classic microfinance theory of change posits a linear pathway: access to credit leads to investment in microenterprises, which leads to increased household income, which leads to poverty reduction, which ultimately contributes to economic growth (Parihar et al., 2024). However, this chain is rarely tested empirically in the Nigerian context (Nkamnebe et al., 2024). Bros et al. (2023) emphasise the role of entrepreneurship as a mediating variable, yet Nigerian studies typically regress credit aggregates directly on GDP or HDI without modelling the intermediate channels (Ideba et al., 2023). Alqatan et al. (2025) demonstrate that progressive microcredit affects household well-being through the simultaneous interplay of project capital, business profitability, and household income, but their study was not conducted in Nigeria and did not test the macro-level growth effects (Hasan et al., 2025).

Third, the Nigerian literature disproportionately focuses on poverty alleviation at the household level while neglecting the macroeconomic growth channel (Obodoechi, 2023). Studies such as Nkamnebe et al. (2024), Shehu et al. (2025), Aiyedun (2024), and Wike et al. (2024) examine microcredit effects on rural women entrepreneurs, smallholder farmers, and poverty indices at local government or state levels. While these micro-level studies are valuable, they do not establish whether aggregated microfinance lending translates into national economic development (Ogbeta et al., 2025). Conversely, macro-level studies such as Odeyale and Ibrahim (2024), Ananwude and Lateef (2024), and Otekunrin et al. (2022) treat microfinance credit as a monolithic variable without disaggregating its components or accounting for the institutional quality and regulatory environment that condition its effectiveness (Ozili et al., 2023). This missing link between micro-level impact and macro-level growth remains unaddressed (Tehulu, 2022).

Fourth, the recent regulatory turbulence in Nigeria's microfinance sector has not been empirically incorporated into growth models (Igue, 2025). The mass revocation of microfinance bank licences by the Central Bank of Nigeria in 2024 and 2025 has fundamentally altered the sector's structure, yet existing studies rely on data that predates these developments (Ogbeta et al., 2025). The effect of institutional contraction on credit delivery and, consequently, on economic growth remains unexplored (Yusuf et al., 2024). Moreover, the potential asymmetric effects of microfinance where positive effects during expansion may reverse during contraction—have not been tested in the Nigerian context, despite Smolo (2023) demonstrating such asymmetries in Bosnia and Herzegovina.

In summary, the existing literature fails to provide a coherent, empirically grounded answer to whether and how microfinance bank lending promotes economic development in Nigeria. The contradictions across studies, the neglect of mediating mechanisms, the disconnect between micro-level and macro-level analyses, and the failure to account for recent regulatory shocks collectively constitute the research gap that this study fills as evidence in Raut, (2025); Odeyale & Ibrahim, (2024).

1 Microfinance and Economic Growth: International Evidence

Raut (2025) examined the role of microfinance institutions in enhancing financial inclusion and economic growth using data from multiple developing countries. The study employed panel data analysis and found that microfinance outreach and loan disbursement had a positive and significant effect on GDP growth. The study recommended that governments create enabling environments for microfinance institutions to thrive. However, the study did not disaggregate the effects by region or institutional type, limiting the generalizability of its findings to specific country contexts such as Nigeria.

Bros et al. (2023) investigated the role of microfinance institutions in promoting entrepreneurship in Pakistan using a quasi-experimental design. The study found that access to microcredit significantly increased the probability of starting a business and the profitability of existing enterprises. The study identified entrepreneurial orientation as a key mediating variable between microcredit and business outcomes. However, the study focused exclusively on Pakistan and did not examine the macro-level growth effects of aggregated microcredit.

Parihar et al. (2024) examined the role of microfinance institutions in reducing poverty and promoting economic development across selected Asian and African countries. The study found that microfinance had a positive effect on poverty reduction but a weaker effect on economic development indicators such as the Human Development Index. The authors attributed this to the fact that microfinance primarily affects household-level outcomes rather than structural determinants of development. The study recommended that microfinance be integrated with broader development strategies rather than treated as a standalone intervention.

Smolo (2023) investigated the asymmetric impact of microfinance on economic growth in Bosnia and Herzegovina using nonlinear autoregressive distributed lag modelling. The study found that positive shocks to microfinance credit had a positive effect on growth, while negative shocks had a disproportionately larger negative effect. This asymmetry suggests that the contraction of microfinance sectors can be more damaging than their expansion is beneficial. The study called for policy stability in microfinance regulation to avoid disruptive shocks.

2. Microfinance and Economic Growth in Nigeria

Odeyale and Ibrahim (2024) analysed the relationship between microfinancing and Nigerian economic growth using the fully modified least squares approach over the period 1992–2022. The study found that microfinance bank loans and advances had a positive and significant effect on real GDP in the long run. The study concluded that microfinance credit is a viable tool for promoting economic growth in Nigeria. However, the study did not examine the short-run dynamics or the potential asymmetric effects of credit contractions.

Ideba et al. (2023) examined whether microfinance bank credit influences output performance in Nigeria using the dynamic ordinary least squares approach. The study found that microfinance bank loans and advances had a positive and significant effect on output performance in the long run. The study recommended that policymakers strengthen the microfinance sector to enhance

its contribution to output growth. However, the study relied on aggregate credit data without disaggregating by loan type or borrower category.

Ananwude and Lateef (2024) investigated the effect of microfinance bank activities on economic development in Nigeria over the period 1986–2022 using ordinary least squares estimation. The study found that microfinance bank loans, deposits, and investments had no significant effect on the Human Development Index. The authors concluded that microfinance bank activities have not translated into meaningful development outcomes in Nigeria. The study recommended that microfinance banks refocus on their core mandate of poverty reduction rather than profit maximisation.

Otekunrin et al. (2022) analysed the effect of microfinance bank activities on Nigeria's economic development using time series data from 1992 to 2020. The study found that microfinance bank activities had a positive but insignificant effect on per capita income in the short run. The authors attributed this to the small size of the microfinance sector relative to the overall economy and the concentration of microfinance banks in urban areas. The study recommended that microfinance banks expand their rural outreach to enhance their development impact.

Ogbeta et al. (2025) examined the contributions of microfinance banks to Nigeria's economic growth using data from 2005 to 2023. The study found that microfinance bank credit had a positive but modest effect on GDP growth. The authors noted that the effect was stronger during periods of economic expansion and weaker during recessions, suggesting that microfinance is pro-cyclical. The study recommended that countercyclical microfinance policies be adopted to stabilise credit delivery during downturns.

Yusuf et al. (2024) investigated the relationship between microfinance banks and economic growth in Nigeria using cointegration and error correction modelling. The study found a long-run equilibrium relationship between microfinance bank credit and economic growth. However, the short-run adjustment coefficient was small, indicating that the effects of microfinance credit on growth materialise slowly. The study recommended that policies to accelerate the transmission of microcredit effects be implemented.

3. Microfinance and Poverty Alleviation in Nigeria

Nkamnebe et al. (2024) examined the effect of microcredit on income generation for poverty reduction among rural women entrepreneurs in South-East Nigeria. The study employed a survey design with 400 respondents and found that microcredit significantly increased household income and reduced poverty incidence. The study recommended that microcredit be accompanied by business development services to enhance its effectiveness. However, the study was limited to a single geopolitical zone and did not examine macro-level growth effects.

Shehu et al. (2025) investigated the impact of microfinance on poverty in Imo State, Nigeria using a mixed-methods approach. The study found that access to microfinance services significantly reduced poverty among beneficiaries compared to non-beneficiaries. The study

attributed this to increased business capital, improved cash flow, and enhanced household consumption. However, the study did not examine whether these household-level improvements aggregated into regional or national development gains.

Obodoechi (2023) analysed the effect of microfinance credit on the poverty index in Udi Local Government Area of Enugu State, Nigeria. The study found that microcredit had a negative and significant effect on the poverty index, indicating that access to credit reduced poverty. The study recommended that microfinance institutions intensify their outreach to rural areas. However, the study was limited to a single local government area, raising questions about external validity.

Aiyedun (2024) examined the impact of microfinance on poverty alleviation using a case study of rural banks in Nigeria. The study found that microfinance services had a positive effect on poverty reduction, particularly among women and youth. The study recommended that microfinance banks adopt flexible repayment schedules to accommodate the seasonal income patterns of rural borrowers. However, the study did not examine the sustainability of poverty reduction effects over time.

Wike et al. (2024) investigated the relationship between microfinancing and poverty alleviation in Nigeria using empirical analysis. The study found that microfinance credit had a positive but weak effect on poverty reduction. The authors attributed this to the small average loan sizes and the diversion of credit to consumption rather than investment. The study recommended that microfinance institutions provide larger loans and technical assistance to promote productive investment.

METHODOLOGY

Research Design

This study adopts a quantitative research design using annual secondary time-series data to examine the relationship between microfinance bank credit and economic growth in Nigeria. The study covers the period 2008–2025, comprising 18 annual observations.

Data Sources

The study uses secondary data obtained from reliable sources. Data on microfinance bank credit are obtained from the Central Bank of Nigeria (CBN) and the IMF Financial Access Survey, while macroeconomic variables are obtained from the World Bank World Development Indicators (WDI) and CBN statistical publications.

Variables and Measurement

Economic growth (GDPG) is the dependent variable and is measured by annual real GDP growth. The main explanatory variable, microfinance bank credit (MFBC), is measured as the value of loans and advances provided by microfinance banks. Inflation (INF), interest rate (INT), and investment (INV) are included as control variables.

Model Specification

The relationship between microfinance bank credit and economic growth is specified as:

$$GDPG_t = \beta_0 + \beta_2 INF_t + \beta_3 INT_t + \beta_4 INV_t + \beta_5 U NEMP_t + \varepsilon_t$$

where:

$GDPG_t$ denote: economic growth,

MFBC denote: microfinance bank credit,

INF denote: Inflation,

INT denote: Interest rate,

INV denote: Investment, and

ε denote: is the error term.

Estimation Technique

The study employs the Autoregressive Distributed Lag (ARDL) bounds-testing approach to examine both short-run and long-run relationships among the variables. The analysis involves descriptive statistics, correlation analysis, ADF and/or PP unit-root tests, ARDL bounds testing, long-run estimation, and an Error Correction Model (ECM). Diagnostic tests for serial correlation, heteroskedasticity, normality and model specification are conducted, while CUSUM and CUSUMSQ tests are used to assess model stability.

Hypothesis

The study tests the following hypothesis:

H₀: Microfinance bank credit has no significant effect on economic growth in Nigeria.

H₁: Microfinance bank credit has a significant effect on economic growth in Nigeria.

Data Analysis

Data are organized and screened using Microsoft Excel, while stata is used for the econometric analysis. Given the relatively small sample of 18 annual observations, the study adopts a parsimonious model with microfinance bank credit as the main explanatory variable and only three relevant control variables.

RESULT AND DISCUSSION

Descriptive statistics

Table 1: Descriptive statistics

Statistic	MFBC (₦ Million)	GDPG (%)
Observations	18	18
Mean	421,637.60	3.90
Median	193,685.70	3.45
Std. Deviation	438,197.30	3.23
Minimum	42,753.06	-1.79
Maximum	1,300,000.00	11.31
Skewness	1.08	0.63
Kurtosis	2.74	3.05
Jarque-Bera	3.52	1.19
Probability	0.17	0.55

MFBC is highly skewed to the right (skewness = 1.08), reflecting the rapid expansion of microfinance credit, particularly after 2020. GDPG is approximately symmetric (skewness = 0.63) with a mean of 3.90%. The Jarque-Bera probabilities (0.17 and 0.55) exceed 0.05, indicating that both variables are normally distributed (Gujarati & Porter, 2009).

Correctional analysis

Table 2: Correctional analysis

MFBC	GDPG	
MFBC	1.000	
GDPG	-0.36	1.000

Interpretation: The correlation coefficient between MFBC and GDPG is -0.36 , indicating a weak negative relationship. This suggests that, contrary to theoretical expectation, increases in microfinance bank credit are associated with lower GDP growth over the study period (Odeyale & Ibrahim, 2024). This counterintuitive finding may reflect the diversion of credit to consumption rather than productive investment, or the confounding effects of macroeconomic shocks (Ananwude & Lateef, 2024).

Unit root testing

Table 3: Unit root testing

Variable	Level (Trend)	First Difference	Order of Integration
GDPG	-2.41 ($p = 0.37$)	-4.83 ($p = 0.01$) **	I(1)
MFBC	-1.87 ($p = 0.66$)	-3.92 ($p = 0.03$) **	I(1)

Critical values (5%): Level = -3.60 ; First difference = -3.61

Interpretation: Both GDPG and MFBC are non-stationary at levels but become stationary at first difference, meaning both are integrated of order one, I(1) (Dickey & Fuller, 1979). This justifies the use of the ARDL bounds-testing approach, which accommodates variables of mixed integration order (Pesaran et al., 2001)

ARDL Bounds Test for Cointegration

Table 4: configuration test

Test Statistic	Value	k
F-statistic	1.931	1
t-statistic	-1.809	1

Critical Values (Case 3, $k = 1$):

Table 4b: configuration test

Significance	I(0) Bound	I(1) Bound
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

Decision: F-statistic (1.931) < I (0) bound at 10% (4.04). Fail to reject H_0 : no long-run relationship exists (Pesaran et al., 2001).

ARDL Short-Run (Error Correction) Estimates

Table 6: Dependent Variable: Δ GDPG

Variable	Coefficient	Std. Error	t-statistic	p-value
Δ MFBC	-0.0000021	0.0000034	-0.62	0.548
ECT (-1)	-0.418	0.237	-1.76	0.101
Constant	1.586	1.183	1.34	0.202

Table 7: R- square

R²	0.28	
Adjusted R²	0.18	
F-statistic	2.87	0.089
Durbin-Watson	1.94	

The short-run coefficient of Δ MFBC (-0.0000021) is negative and statistically insignificant ($p = 0.548$), confirming that microfinance bank credit does not significantly affect GDP growth in the short run (Ideba et al., 2023). The error correction term (-0.418) is negative as expected, indicating that about 41.8% of disequilibrium is corrected annually, but it is only weakly significant ($p = 0.101$), consistent with the absence of a stable long-run relationship (Otekunrin et al., 2022). The model explains only 28% of the variation in GDP growth

Diagnostic Tests

Table 8: diagnostic test

Test	Statistic	p-value	Conclusion
Breusch-Godfrey LM (Serial Correlation)	0.87	0.44	No serial correlation
Breusch-Pagan (Heteroskedasticity)	1.24	0.28	Homoskedastic
Jarque-Bera (Normality)	1.19	0.55	Residuals normal
Ramsey RESET (Specification)	0.63	0.45	Model correctly specified
CUSUM	—	—	Stable (within 5% bounds)
CUSUMSQ	—	—	Stable (within 5% bounds)

All diagnostic tests confirm that the model is free from serial correlation, heteroskedasticity, and non-normality. The Ramsey RESET test indicates no specification error, and the CUSUM/CUSUMSQ tests confirm parameter stability over the study period (Gujarati & Porter, 2009).

Hypothesis test result

Table 9: Result

Hypothesis	Decision
H ₀ : Microfinance bank credit has no significant effect on economic growth in Nigeria	Fail to reject H ₀
H ₁ : Microfinance bank credit has a significant effect on economic growth in Nigeria	Reject H ₁

Microfinance bank credit does **not** have a statistically significant effect on economic growth in Nigeria over the period 2008–2025 ($p = 0.548$).

Table 10: Summary of the main finding

Finding	Evidence
No long-run relationship between MFBC and GDPG	ARDL bounds test: $F = 1.931 < 4.04$ (Odeyale & Ibrahim, 2024)
No short-run relationship between MFBC and GDPG	Δ MFBC coefficient insignificant ($p = 0.548$) (Ideba et al., 2023)
Negative correlation between MFBC and GDPG	$r = -0.36$ (Ananwude & Lateef, 2024)
Model is stable and well-specified	All diagnostic tests passed (Gujarati & Porter, 2009)

Error correction term weakly significant	ECT = -0.418, p = 0.101 (Otekunrin et al., 2022)
--	--

DISCUSSION OF FINDINGS

The central finding of this study is that microfinance bank credit has no statistically significant effect on economic growth in Nigeria over the period 2008–2025, as evidenced by the ARDL bounds test ($F = 1.931 < 4.04$), the insignificant short-run coefficient ($p = 0.548$), and the weak negative correlation ($r = -0.36$). This result is strongly supported by Ananwude and Lateef (2024), who found that microfinance bank loans, deposits, and investments had no significant effect on Nigeria's Human Development Index, and by Otekunrin et al. (2022), who reported a positive but insignificant effect of microfinance bank activities on per capita income, attributing this to the small size of the sector and its urban concentration. The finding also aligns with Chikwira et al. (2022), who found that microfinance increased poverty in the long run in Zimbabwe due to over-indebtedness and consumption lending, and with Ozili et al. (2023), who argued that excessive credit growth negatively affects growth when credit quality deteriorates. However, it contradicts Odeyale and Ibrahim (2024) and Ideba et al. (2023), who reported positive and significant long-run effects using longer time spans and different estimation techniques, and Raut (2025), whose cross-country panel found positive growth effects of microfinance outreach. The divergence is explained by sample size limitations, the omission of control variables, and the regulatory turbulence in Nigeria's microfinance sector since 2024, which may have structurally altered the credit-growth relationship. The insignificant error correction term (-0.418 , $p = 0.101$) further confirms that adjustment to equilibrium is slow and unreliable. Ultimately, the findings suggest that credit alone is insufficient to drive growth; complementary factors such as entrepreneurial orientation, financial literacy, and institutional quality are necessary, as emphasised by Bros et al. (2023), Alqatan et al. (2025), and Hasan et al. (2025), whose works demonstrate that the impact of microcredit depends on how it is used rather than merely how much is disbursed.

CONCLUSION

This study investigated the relationship between microfinance bank credit and economic growth in Nigeria over the period 2008–2025 using the Autoregressive Distributed Lag bounds-testing approach. The evidence is unambiguous: microfinance bank credit exerts no statistically significant effect on economic growth in Nigeria, neither in the short run nor in the long run. The ARDL bounds test failed to establish a long-run equilibrium relationship between the two variables, with the F-statistic falling decisively below the lower bound critical value at all conventional significance levels. The short-run error correction model confirmed this null result, producing an insignificant coefficient for microfinance bank credit, while the error correction term, though correctly signed, remained only weakly significant. These findings directly contradict the finance-growth hypothesis and challenge the foundational assumption that expanding credit access to the poor automatically stimulates investment, entrepreneurship, and aggregate output. The implications are profound. Despite a thirty-fold increase in microfinance

bank credit, from ₦42.8 billion in 2008 to ₦1.3 trillion in 2025, Nigeria's GDP growth has remained volatile, averaging just 3.9% and touching negative territory twice. The weak negative correlation between credit expansion and growth suggests that the sector has failed to convert credit into productive capacity. This disconnect reflects three structural failures: the diversion of microcredit into consumption rather than investment, loan sizes too small to finance meaningful business expansion, and a macroeconomic environment undermined by inflation, policy uncertainty, and regulatory shocks that have eroded the sector's capacity to deliver development outcomes. The study concludes that microfinance bank credit, as currently deployed in Nigeria, is not a sufficient driver of economic growth. Credit alone is not enough. Without complementary interventions financial literacy, business development services, and rigorous monitoring to ensure loans finance productive activities microfinance will continue to underperform its developmental promise. Policymakers must move beyond credit disbursement targets and embrace a holistic framework that integrates microfinance into broader industrial and entrepreneurial strategy. Until then, the microfinance-growth nexus in Nigeria will remain statistically invisible and economically inconsequential.

Article Publication Details

This article is published in the [OpenMind Journal of Multidisciplinary Innovation & Development](#), ISSN: 3108-2920 (Online). In Volume 2 (2026), Issue 5 (Sep - Oct) - 2026
The journal is published and managed by [OMR PUBLICATION](#) .

Acknowledgements

We sincerely thank the editors and the reviewers for their valuable suggestions on this paper.

Authors' contributions

All author(s) read and approved the final manuscript.

Funding

The author(s) declare that no funding was received for this work.

Data availability

No datasets were generated or analyzed during the current study.

Declarations

Ethics approval and consent to participate

The author(s) declare that not applicable.

Consent for publication

The author(s) declare that not applicable.

Competing interests

The author(s) declare no competing interests.

REFERENCES

1. Aiyedun, O. A. (2024). Impact of microfinance on poverty alleviation: A case of rural banks in Nigeria. *International Journal of Academic Research and Development*, 9(5), 32–38.
2. Akinrinola, O. O., & Folorunso, O. (2022). Evaluation of the nexus between financial inclusion and economic growth in Nigeria (1980–2020). *European Journal of Accounting, Auditing and Finance Research*, 10(7), 1–16.
3. Alqatan, A., Talbi, N., Behbehani, H., Ben Belgacem, S., Arslan, M., & Sbeiti, W. (2025). Dynamic interaction between microfinance and household well-being: Evidence from the microcredit progressive model for sustainable development. *Econometrics*, 13(1), 12.
4. Ananwude, A. C., & Lateef, O. (2024). Effect of microfinance bank activities on economic development in Nigeria (1986–2022). *African Banking and Finance Review Journal*, 15(15), 173–187.
5. Bros, C., Fareed, F., & Lochard, J. (2023). Climbing the economic ladder: The role of microfinance institutions in promoting entrepreneurship in Pakistan. *Journal of International Development*, 35(6), 1143–1162.
6. Chikwira, C., Vengesai, E., & Mandude, P. (2022). The impact of microfinance institutions on poverty alleviation. *Journal of Risk and Financial Management*, 15(9), 393.

7. Hasan, N., Singh, A. K., Agarwal, M. K., & Kushwaha, B. P. (2025). Evaluating the role of microfinance institutions in enhancing the livelihood of urban poor. *Journal of Economic and Administrative Sciences*, 41(1), 114–131.
8. Hussaini, A., Suleiman, A. S., & Ladan, L. S. (2024). The effect of microfinance on financial inclusion and poverty alleviation in Nigeria. *Bayero Journal of Social Science and Administration*, 9(1), 72–91.
9. Ibrahim, Y. A., & Sani, B. N. (2024). Impact of microfinance banking services on the performance of smallholder rice farmers in Kaduna State, Nigeria. *Journal of Economics and Allied Research (JEAR)*, 46.
10. Ideba, E. T., Orji, A., Ogbuabor, J. E., Nwodo, I. P., & Anthony-Orji, O. I. (2023). Does microfinance bank credit influence output performance in Nigeria? A new empirical evidence from the DOLS approach. *Journal of Academic Research in Economics*, 15(3).
11. Igue, N. N. (2025). *An analysis of the performance of microfinance banks in Nigeria* [Doctoral dissertation, Loughborough University].
12. Kalu, F., & Boniface, I. I. (2023). Empirical analysis of the effect of public debt on the economic growth of Nigeria. *Economics and Business Quarterly Reviews*, 6(1).
13. Musa, D. M., Shogo, A. A., & Eo, O. T. (2023). Impact of microfinance banks operation on poverty alleviation in Gombe State. *International Journal of Financial Research and Business Development*.
14. Nkamnebe, O. E., Nwogwugwu, U. C., Ezenekwe, U. R., & Nzeribe, G. E. (2024). Microcredit and income generation for poverty reduction among rural women entrepreneurs in South-East Nigeria. *NAU Eco Journals*, 15(1), 65–77.
15. Nwoke, F. O., & Chukwu, K. O. (2023). Microfinance banks' activities and economic development of Nigeria. *International Journal of Research in Commerce and Management Studies*, 5(5), 1–21.

16. Obi, C. (2022). *Financial inclusion strategy and economic growth in Nigeria: A short-run empirical analysis*.
17. Obodoechi, O. B. P. (2023). The effect of microfinance credit on poverty index in Udi Local Government Area of Enugu State. *International Journal of Advanced Economics and Sustainable Development*, 4(2), 14–23.
18. Odumusor, C. J., Acquah, S. J., & Abiji, E. (2024). Financial inclusion and its effect on economic growth in Nigeria. *International Research Journal of Economics and Management Studies (IRJEMS)*, 3(2).
19. Odeyale, A. J., & Ibrahim, O. (2024). Microfinancing and Nigerian economic growth: The fully modified least squares (FMOLS) approach. *Akwapoly Journal of Communication & Scientific Research*, 8(2), 55.
20. Ogbeta, D. O., Abusomwan, R. E., & Jackson-Akhigbe, B. E. (2025). The contributions of microfinance banks to Nigeria's economic growth. *Nigerian Journal of Management Studies*, 27(2), 129–154.
21. Ogbonna, O. G., Gerald, N., & Ani, K. J. (2024). Effects of financial inclusion on poverty reduction, savings and Nigeria economic growth: 1980–2022. *African and Global Issues Quarterly*, 4(1), 9–42.
22. Otekunrin, A. O., Kenechukwu, O. P., Eluyela, D. F., John, O. N., & Ibrahim, A. (2022). Do microfinance banks' activities affect Nigeria's economic development? *Banks and Bank Systems*, 17(2), 1–12.
23. Ozili, P. K., Oladipo, O., & Iorember, P. T. (2023). Effect of abnormal increase in credit supply on economic growth in Nigeria. *African Journal of Economic and Management Studies*, 14(4), 583–599.

24. Parihar, A. S., Parihar, B., & Parihar, V. (2024). Examine the role of microfinance institutions in reducing poverty and promoting economic development. *Journal of Xidian University*, 10, 236–246.
25. Raut, B. B. (2025). Examining the role of microfinance institutions in enhancing financial inclusion and economic growth. *International Research Journal of MMC*, 6(1), 1–14.
26. Shehu, N., Abubakar, Z., & Ya'u, M. H. (2025). Impact of microfinance on poverty in Imo State, Nigeria. *International Journal of Intellectual Discourse*, 8(2).
27. Smolo, E. (2023). Asymmetric impact of microfinance on economic growth: Evidence from Bosnia and Herzegovina. *Heliyon*, 9(12).
28. Small, I. O. P. R. A. (2025). *Effect of orientation on role of financial institutions on poverty reduction among small and medium enterprises in Taraba State, Nigeria*.
29. Tehulu, T. A. (2022). Capital adjustment process and credit growth of microfinance institutions: Evidence from Sub-Saharan Africa. *Cogent Economics & Finance*, 10(1), 2111791.
30. Wike, C., Kpekpe, B. A., & Amadi, J. C. (2024). Micro financing and poverty alleviation: Empirical investigation from Nigerian economy. *International Journal of Social Sciences and Management Research*, 10(6), 27–48.
31. Yusuf, M. B. O., Yusuff, R. O., & Jimoh, D. I. (2024). The relationship between microfinance bank and economic growth in Nigeria. *Arab Economic and Business Journal*, 16(1), 3.

PUBLISHER'S NOTE

OMR PUBLICATION remains neutral with regard to jurisdictional claims in published maps and institutional affiliations. The statements, opinions, and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of OMR PUBLICATION and/or the editor(s). OMR PUBLICATION disclaims responsibility for any injury to people or property resulting from any ideas, methods, instructions, or products referred to in the content.

